

# FDIC State Profile

Fall 2004

## Texas

Texas nonfarm job growth picked up but continued to lag the nation in mid-2004.

- Texas added jobs for the past three quarters and its growth rate has approximated the nation (See Chart 1). However, the beleaguered construction and manufacturing industries were still shedding jobs.
- The Texas Leading Index, constructed by the Federal Reserve Bank of Dallas, suggests modest gains in the second half of 2004. While an improvement over 2003, the forecast remains below the pre-recession trend and the U.S. forecast. Given the transition away from an oil-based economy and following the severe high-tech contraction, no industry sector has emerged to lead Texas back to robust growth.

Texas metropolitan statistical area (MSAs) reflect diverse performance.

- Not all MSAs in Texas are expanding. **Beaumont, Corpus Christi, and Sherman** contracted on a year-over-year basis. In particular, Sherman's job losses in the troubled telecom sector spilled over into other sectors and were impeding recovery (See Chart 2).
- However, some individual MSAs grew at a very brisk pace. **Laredo and McAllen** ranked number three and nine, respectively, out of 282 MSAs for year-over-year employment growth.
- The goods producing and service providing sectors in Laredo and McAllen, much of which is attributed to maquiladora manufacturing activities and NAFTA-related activity, far outperformed the rest of the state.

World Trade Organization agreement could affect agriculture subsidies.

- After a prolonged stalemate, world trade talks held at the end of July 2004 produced a new framework that would eventually eliminate billions of dollars of farm subsidies by reducing or eliminating import barriers, export subsidies, and domestic support programs.
- In a recent Federal Reserve survey of bankers, the majority of respondents (74.1 percent) indicated a decrease (or removal) of subsidies would be detrimental. Numerous

Chart 1. Job Numbers Show Texas Employment Growth Slightly Trailing the Nation in Mid 2004

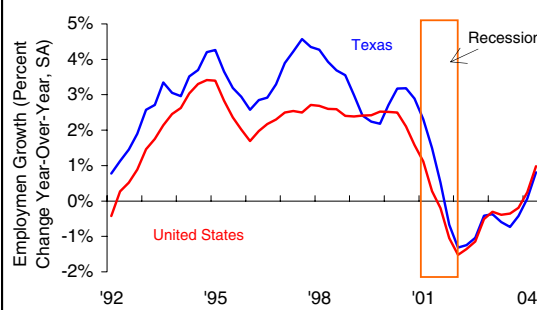


Chart 2: The Goods Producing Sector Is Still Struggling In Many Texas Areas

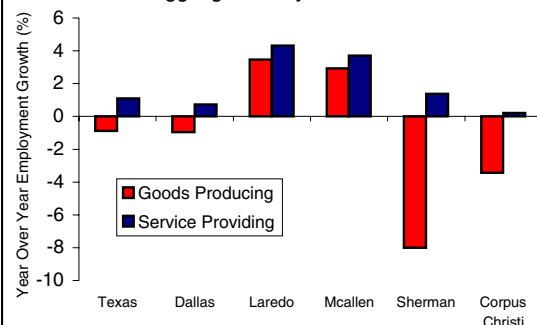
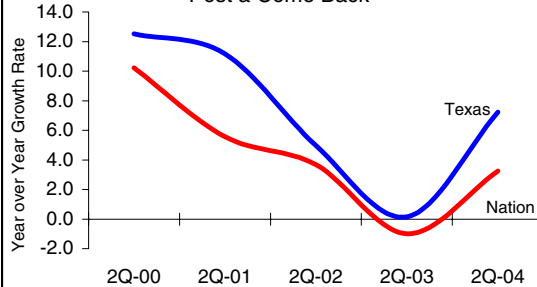


Chart 3: Texas C&I Loans Under \$1 Million Post a Come Back



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bankers commented that a reduction in subsidies would adversely affect land values, specifically in the Texas High Plains Area.<sup>1</sup>

### Hispanic immigration is key to future growth.

- According to the 2000 Census, Texas' Hispanic population increased from 25 to 32 percent of the state's population since the 1990 Census.
- The fast-growing Laredo and McAllen MSAs are more than 88 percent Hispanic. These areas with rapidly growing Hispanic populations and faster than average U.S. income growth are motivating banks to focus on this demographic group for growth opportunities.

### Rebounding commercial and industrial (C&I) lending signals a brighter economic outlook.

- C&I lending for Texas institutions appears to be turning around. C&I loan growth to small firms was 7.2 percent for the four quarter period ending June 30, 2004, the highest growth rate in three years (See Chart 3). Nationwide, senior lending officers reported that demand for small firm C&I loans was at its highest level in ten years.<sup>2</sup>
- The number of new Texas firms increased 13.4 percent between 2002 and 2003, the 16<sup>th</sup> highest growth rate in the nation. New firm creation can explain, in part, the increased demand for C&I loans.

### Uncertainty of both the timing and magnitude of interest rate movements presents challenges extending beyond balance sheet rate sensitivity.

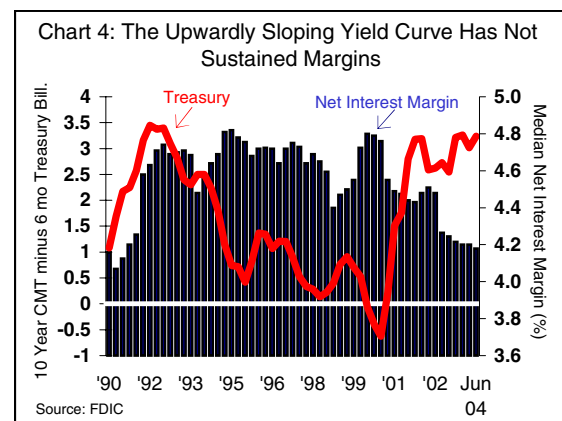
- Even with a more favorably shaped yield curve, compression of net interest margins (NIMs) continued. At 4.19 percent, the median NIM for smaller banks (under \$500 million) was the lowest since third quarter 1990 (See Chart 4).
- Rising rates signal curtailment of mortgage activity, particularly for the refinance segment. Lower portfolio volume and fee generation will force decisions about loan mix strategy, cost cutting or underwriting standards.
- While many bank balance sheets may be positioned to benefit from higher interest rates, a rapid rise could adversely affect asset quality. Debt service coverage for borrowers with adjustable rate mortgages could be stressed, and the ability to refinance balloon payments on fixed-rate loans may be compromised by higher interest charges.

### Ailing consumers have yet to spoil bank balance sheets.

- Texas residential mortgage foreclosures<sup>3</sup> ranked 12th in the nation as of mid-year. Certain sections of the state continue to post historically high levels of foreclosures. Foreclosures jumped 21, 22 and 35 percent in September from a year ago for **Dallas**, **Travis** and **Bexar** counties, respectively.<sup>4</sup>
- Texas insured institutions report stable residential past-due rates, similar to national levels; however, foreclosure rates remain a concern.
- Texas bankruptcy rates hovered near record levels, albeit below the national average. If interest rates move higher, stressed debt service burdens has the potential to worsen bankruptcies and foreclosures. Despite these trends, Texas insured institutions continued to report stable past-due and charge-off rates for consumer loans.

### Home equity loans offer growth opportunities for Texas institutions.

- With the passing of a state constitutional amendment last year, Texas homeowners can now tap into an estimated \$12.7 billion of home equity<sup>5</sup> Texas insured institutions held \$2.3 billion in home equity lines of credit at June 30, 2004, an increase of 66 percent from one-year earlier. Larger banks and thrifts, headquartered out-of-state, are also aggressively marketing this new product.



<sup>1</sup>Quarterly Survey of Agricultural Credit Conditions in the Eleventh Federal Reserve District.

<sup>2</sup>Source: Federal Reserve Senior Lending Survey/Haver Analytics.

<sup>3</sup>Mortgage foreclosure starts (four quarter moving average) according to the Mortgage Bankers Association.

<sup>4</sup>DiMartino, Danielle, The Dallas Morning News, Forced home sales up after a brief break, North Texas foreclosure listings rise 21%, August 20, 2004; Michelle Breyer, Austin American Statesman, Austin-area foreclosures surge, August 21, 2004.

<sup>5</sup>Texas Comptroller of Public Account, "Home Equity Lending Gaps in Texas," March 2003.

## Texas at a Glance

<b>General Information</b>	<b>Jun-04</b>	<b>Jun-03</b>	<b>Jun-02</b>	<b>Jun-01</b>	<b>Jun-00</b>
Institutions (#)	688	708	723	742	786
Total Assets (in thousands)	209,080,554	219,097,232	204,632,957	188,726,153	246,643,848
New Institutions (# < 3 years)	19	20	17	22	30
New Institutions (# < 9 years)	56	54	53	51	48
<b>Capital</b>	<b>Jun-04</b>	<b>Jun-03</b>	<b>Jun-02</b>	<b>Jun-01</b>	<b>Jun-00</b>
Tier 1 Leverage (median)	9.38	9.17	9.11	9.09	9.15
<b>Asset Quality</b>	<b>Jun-04</b>	<b>Jun-03</b>	<b>Jun-02</b>	<b>Jun-01</b>	<b>Jun-00</b>
Past-Due and Nonaccrual (median %)	1.79%	2.11%	2.00%	2.05%	1.76%
Past-Due and Nonaccrual >= 5%	86	101	93	83	75
ALLL/Total Loans (median %)	1.26%	1.26%	1.25%	1.19%	1.18%
ALLL/Noncurrent Loans (median multiple)	2.11	1.77	1.81	1.98	2.05
Net Loan Losses/Loans (aggregate)	0.29%	0.41%	0.39%	0.36%	0.33%
<b>Earnings</b>	<b>Jun-04</b>	<b>Jun-03</b>	<b>Jun-02</b>	<b>Jun-01</b>	<b>Jun-00</b>
Unprofitable Institutions (#)	41	42	47	36	34
Percent Unprofitable	5.96%	5.93%	6.50%	4.85%	4.33%
Return on Assets (median %)	1.08	1.06	1.17	1.16	1.28
25th Percentile	0.70	0.68	0.71	0.82	0.92
Net Interest Margin (median %)	4.18%	4.25%	4.48%	4.48%	4.79%
Yield on Earning Assets (median)	5.36%	5.74%	6.49%	7.99%	8.15%
Cost of Funding Earning Assets (median)	1.08%	1.47%	2.03%	3.52%	3.34%
Provisions to Avg. Assets (median)	0.10%	0.14%	0.16%	0.13%	0.13%
Noninterest Income to Avg. Assets (median)	0.91%	0.93%	0.87%	0.89%	0.87%
Overhead to Avg. Assets (median)	3.39%	3.33%	3.36%	3.37%	3.43%
<b>Liquidity/Sensitivity</b>	<b>Jun-04</b>	<b>Jun-03</b>	<b>Jun-02</b>	<b>Jun-01</b>	<b>Jun-00</b>
Loans to Deposits (median %)	64.81%	63.69%	63.39%	62.53%	62.14%
Loans to Assets (median %)	56.19%	54.17%	54.86%	54.98%	54.15%
Brokered Deposits (# of Institutions)	79	67	54	49	41
Bro. Deps./Assets (median for above inst.)	2.82%	3.52%	3.28%	1.77%	2.73%
Noncore Funding to Assets (median)	16.88%	16.62%	16.58%	16.78%	15.64%
Core Funding to Assets (median)	71.98%	72.08%	72.23%	72.17%	73.39%
<b>Bank Class</b>	<b>Jun-04</b>	<b>Jun-03</b>	<b>Jun-02</b>	<b>Jun-01</b>	<b>Jun-00</b>
State Nonmember	291	294	298	305	325
National	314	326	335	347	367
State Member	42	42	42	41	43
S&L	11	11	11	12	10
Savings Bank	10	12	13	13	15
Stock and Mutual SB	20	23	24	24	26
<b>MSA Distribution</b>	<b># of Inst.</b>	<b>Assets</b>	<b>% Inst.</b>	<b>% Assets</b>	
No MSA	364	35,338,260	52.91%	16.90%	
Dallas TX PMSA	71	25,455,519	10.32%	12.17%	
Houston TX PMSA	45	32,558,560	6.54%	15.57%	
Ft Worth-Arlington TX PMSA	40	8,510,348	5.81%	4.07%	
Austin-San Marcos TX	21	21,758,828	3.05%	10.41%	
San Antonio TX	17	28,186,503	2.47%	13.48%	
Longview-Marshall TX	12	1,595,615	1.74%	0.76%	
Waco TX	11	1,686,612	1.60%	0.81%	
Lubbock TX	11	7,252,738	1.60%	3.47%	
Killeen-Temple TX	10	2,664,097	1.45%	1.27%	
McAllen-Edinburg-Mission TX	10	10,647,660	1.45%	5.09%	
Corpus Christi TX	8	1,951,112	1.16%	0.93%	
Odessa-Midland TX	7	1,676,917	1.02%	0.80%	
Sherman-Denison TX	7	1,218,782	1.02%	0.58%	
Brazoria TX PMSA	6	680,579	0.87%	0.33%	